

# **LDPG Issues and MoFPED Response on the FY21/22 Budget Strategy**

**By DEG**

**January 2021**

# Background

- Meeting held on 17 December 2020 between LDPG and Government (MoFPED & NPA) to discuss the Budget Strategy for FY 2021/22
- Agreed Actions:
  - a) MoFPED to share the presentation on the Economic Growth Strategy, Budget Priorities & Financing for FY2021/22
  - b) LDGP will submit written issues for MoFPED to respond to
  - c) MoFPED to share a comprehensive response to LDPG's written submission
  - d) Re-convene in early 2021, for another round of discussions

## 1. *Debt Servicing Suspension Initiative (DSSI)*

- *Update on where Government is at with signing up to the DSSI?*

- The Minister has already signed the DSSI extension (Jan-Jun 2021) on behalf of GoU and sent it to the Paris Club Secretariat to process the countersignature
- Waiting for a response from the Paris Club Secretariat

Key concern/s:

What about actual implementation, finalising MoU's with creditors, and stopping the servicing of related debt?

## 2. Domestic Mobilisation

### Revenue

- *What measures from the recently approved DRM Strategy will be incorporated in the FY21/22 Budget to boost revenue collection?*
- *To the extent possible, the focus should be on reducing tax exemptions and special regimes.*
- Tax measures for FY 21/22 will be anchored on the DRMS, targeting strengthening tax policies such as reforming the tax incentives regime
- However, most of the revenue effort is expected to be derived from URA interventions aimed at enhancing taxpayer compliance through deployment of IT systems e.g. Digital Stamps, e-receipt etc.

### *3. Reprioritising spending in FY20/21*

- *Update on the FY20/21 Budget reprioritization process?*
- *The 1<sup>st</sup> Budget Call Circular (BCC) for FY21/22 identified about UShs 3 trillion of the approved FY20/21 Budget for cuts – UShs 1.6 trillion of this is from externally financed projects. How was the UShs 1.6 trillion arrived at and are these on-going or new projects?*

- The NBFP, which was approved by Cabinet and submitted to Parliament, updated the budget reprioritization since the 1<sup>st</sup> BCC
- **UShs 351 billion** has been identified from efficiency measures.
- Externally financed projects have not been considered for reprioritization; instead, all on-going projects that are facing implementation challenges will be required to have them urgently resolved, such that these projects can be completed to free counterpart funds for any existing shortfalls and for emerging priority projects.

#### 4. *Reprioritising spending in FY21/22*

No response

- *Has the preparation of the FY21/22 Budget considered the need to further reprioritize or limit spending and generate savings? What actions have been taken in this regard?*
- *Has a temporary freeze on new commitments been considered?*

## 5. *Agro-Industrialization programme*

- *Concerned by the reduced allocation for this programme in the 1st BCC for FY21/22 and hope this is reversed in the NBFP.*
- *What is being done to shift financing from the free distribution of inputs towards expenditures with a greater likelihood of strengthening performance in the agriculture sector?*

Key concern/s:

- The GoU budget for Agro-Industrialization has been increased by **UShs 119 billion**
- External financing has reduced by **UShs 144 billion**, mostly due to reduction in World Bank funding to the Agriculture Cluster Dev't project
- Distribution of inputs: Gov't considers this a critical intervention, given that this is one of the measures to safeguard livelihoods and sustain production during and post-Covid 19, locusts and flooding

What about large historical inefficiencies with this approach and waste of resources? Better targeting?

## 6. *Human Capital Development programme*

- *Concerned by the reduced allocation for this programme and hope this is reversed in the NBFP.*
- *What decisions or actions are being taken to protect spending on social sectors and put the HCD programme on a sound longer-term footing?*

- The GoU budget for HCD programme has been reduced by **UShs 19.8 billion** mostly on account of end of projects under UNEB and Universities
- External Financing has reduced by **UShs 211 billion mainly** on account of reduction in the World Bank funding by **UShs 154 billion** to URMCHIP under MoH

**Key concern/s:**

**So how will these shortfalls be addressed? What about the longer-term and actions to boost/protect spending?**



## 7. *Public Investment Management (PIM)*

- *Encouraging to see progress in reforms to strengthen the selection of projects and improve oversight of the process. However, implementation problems persist.*
  - *Update on Government's efforts to enhance PIM?*
  - *Is an audit of the Public Investment Plan (PIP) being considered to ensure that projects are being prioritised with the highest economic return and that are also ready for implementation?*
- Several achievements registered around PIM reforms such as: Dev't of standardized methodology; revised DC guidelines and standardised national parameters and commodity specific economic conversation factors; training of officers in Integrated Analysis of Investment Projects; completion of Phase 1 of the Integrated Bank of Projects; strengthened coordination with OAG and BMAU (MoFPED).
  - The following reforms are also being undertaken: Phase II of IBP; finalization of the National Investment Management Policy; dev't of Project Implementation & Evaluation Manual; establishment of PIMS Centre of Excellence; and conducting of **Public Investment Management Assessment (PIMA)** with IMF

## 8. *Operations and maintenance*

- *Inadequate financing of operations and maintenance, particularly in the roads sector.*
- *In the FY21/22 Budget, is financing for roads maintenance being increased in line with the annual increment of UShs 250 billion, for a total budget of about UShs 1.25 trillion in FY21/22?*

- Due to resource constraints, the funding for road maintenance is being kept at the level of FY 20/21

### Key concern/s:

Road maintenance spending is off track. Budget to Uganda Road Fund projected at UShs 509.92 bn for the next 3 FYs (NBFP, 21/22)

## 9. Budget planning and credibility

- *This is being undermined by the increasing use of supplementary expenditures.*
- *During the first half of FY20/21, supplementary expenditures already constitute 8.2% of the total approved budget for FY20/21.*
- *A high share of these supplementary expenditures, about 42%, are also for classified expenditures that are not subject to detailed oversight and accountability.*
- *Update on how Government plans to curb the rapid increase in supplementary expenditures?*

- FY 20/21 was a unique year, that necessitated issuance of supplementaries in Q1 to deal with the Covid-19 pandemic, providing stimulus package for economic recovery and containing the security situation.
- Accordingly, after approval by Cabinet, the supplementary expenditures were scrutinized by Parliament and approved in line with the PFMA 2015.
- Although the Covid-19 supplementary was passed by the House in FY19/20 budget, it was at the end of the FY and funds couldn't be utilised and to be revoted.

### Key concern/s:

Increasing use of supplementaries is an issue that has been developing over several years?

## ***10. Aid Management Platform (AMP)***

- *A workable mechanism or system needs to be urgently put in place to address the inadequate tracking of on/off-budget financing from all development partners.*
- *As a result, DPs are committed to working closely with Government to improve the functionality of the current AMP.*
- *Please can we hold a retreat early in the new year to identify possible solutions for the tracking of on/off-budget financing?*

- The AMP captures both on and off budget financing, however, we still have only about 10% of the off-budget financing information
- Despite previous and on-going efforts to train DPs in order to enhance its utilisation, the response and update is still low
- We need to devise a mechanism to reverse this trend
- The proposed approach of a retreat is acceptable and therefore we can discuss its details in February 2021 as proposed

## Proposed Issues for further engagement

- a. Not clear why the DSSI is not being implemented (DEG, & IMF)
- b. Reprioritising spending in FY21/22 – liaise with MoFPED why this issues was not addressed and the reprioritization process (DEG)
- c. Increasing funding towards *Agro-Industrialization* programme and free distribution of agricultural inputs (AgDPG)
- d. Increasing funding towards *Human Capital Development* programme (Edu, Health, SP etc. DPGs)
- e. Sufficient financing of operations and maintenance, particularly in the roads sector (Transport DPG -WB)
- f. Government plans to curb the increase in supplementary expenditures (DEG, LDPG Quartet)
- g. Modalities for the planned AMP retreat in February 2021 (John-TA MoFPED)

# Proposed Actions

- a. Concerned DPGs (as suggested in previous slide) to follow-up with issues and provide response by 27 January 2021
- b. All DPGs to review the National Budget Framework Paper (NBFP) to ascertain whether some of these issues have been addressed and if any other issues have arisen by 27 January 2021
- c. DEG to coordinate the process of getting responses from DPGs and consolidate them by 29 January 2021
- d. LDPG to meet MoFPED again in early February 2021
- e. LDPG to agree with MoFPED on modalities for the planned retreat on AMP in February 2021